

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2007

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Three Oaks	County Berrien
Audit Date March 31, 2007	Opinion Date May 16, 2007	Date Accountant Report Submitted to State: June 18, 2007	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., PC			

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

INDEPENDENT AUDITOR'S REPORT

May 16, 2007

To the Township Board
Township of Three Oaks
Berrien County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Three Oaks, Berrien County, Michigan as of and for the year ended March 31, 2007 which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Three Oaks's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Three Oaks, Berrien County, Michigan as of March 31, 2007, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., PC
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2007

The Management's Discussion and Analysis report of the Township of Three Oaks covers the Township's financial performance during the year ended March 31, 2007.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2007, totaled \$3,359,181.03 for governmental activities. Overall total capital assets remained approximately the same.

Overall revenues were \$1,097,768.09 from governmental activities. Governmental activities had a \$514,371.90 increase in net assets.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund, Library Fund, Roads and Bridges Fund, Building Fund, Water and Sewer Fund, and the Current Tax Collection Fund.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2007

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund, Library Fund, Roads and Bridges Fund, Water and Sewer Fund, and the Building Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in the governmental activities remains strong.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for the Township's governmental services with total expenditures of \$558,940.95.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$174,724.10 in capital assets.

The Township's governmental activities paid \$0 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income. We continue to grow in taxable values with little demand for infrastructure, except good roads and water, where available.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Clerk or Township Treasurer at 269-756-9801.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2007

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	2 643 724 16
Petty cash	125 00
Taxes receivable	14 714 93
Accounts receivable	93 245 14
Total Current Assets	<u>2 751 809 23</u>
NON-CURRENT ASSETS:	
Capital Assets	1 424 046 99
Less: Accumulated Depreciation	<u>(812 747 36)</u>
Total Non-current Assets	<u>611 299 63</u>
TOTAL ASSETS	<u>3 363 108 86</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>3 927 83</u>
Total Current Liabilities	<u>3 927 83</u>
NON-CURRENT LIABILITIES	<u>-</u>
Total Non-current Liabilities	<u>-</u>
Total Liabilities	<u>3 927 83</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	611 299 63
Unrestricted	<u>2 747 881 40</u>
Total Net Assets	<u>3 359 181 03</u>
TOTAL LIABILITIES AND NET ASSETS	<u>3 363 108 86</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2007

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	13 224 59	-	(13 224 59)
General government	146 319 06	42 302 37	(104 016 69)
Public safety	212 706 21	55 079 95	(157 626 26)
Public works	23 854 38	578 397 02	554 542 64
Culture and recreation	150 539 88	56 788 00	(93 751 88)
Other	36 752 07	-	(36 752 07)
	<u>583 396 19</u>	<u>732 567 34</u>	<u>149 171 15</u>
Total Governmental Activities			
General Revenues:			
Property taxes			154 090 72
State revenue sharing			83 334 37
Interest			100 895 17
Miscellaneous			26 880 49
			<u>365 200 75</u>
Total General Revenues			
Change in net assets			514 371 90
Net assets, beginning of year			<u>2 844 809 13</u>
Net Assets, End of Year			<u>3 359 181 03</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2007

	<u>General</u>	<u>Library</u>	<u>Other Funds</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	2 544 828 89	18 208 22	69 494 60	2 632 531 71
Petty cash	125 00	-	-	125 00
Taxes receivable	6 277 44	5 987 12	2 450 37	14 714 93
Accounts receivable	93 245 14	-	-	93 245 14
Due from other funds	11 192 45	-	-	11 192 45
Interfund balances	<u>23 525 60</u>	<u>(1 511 25)</u>	<u>(22 004 35)</u>	<u>-</u>
Total Assets	<u>2 679 184 52</u>	<u>22 684 09</u>	<u>49 940 62</u>	<u>2 751 809 23</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	3 927 83	-	-	3 927 83
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>3 927 83</u>	<u>-</u>	<u>-</u>	<u>3 927 83</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	<u>2 675 256 69</u>	<u>22 684 09</u>	<u>49 940 62</u>	<u>2 747 881 40</u>
Total fund equity	<u>2 675 256 69</u>	<u>22 684 09</u>	<u>49 940 62</u>	<u>2 747 881 40</u>
Total Liabilities and Fund Equity	<u>2 679 184 52</u>	<u>22 684 09</u>	<u>49 940 62</u>	<u>2 751 809 23</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
March 31, 2007

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	2 747 881 40
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Amounts reported for governmental activities in the statement of
net assets are different because –

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the governmental funds balance sheet:

Capital assets at cost	1 424 046 99
Accumulated depreciation	<u>(812 747 36)</u>

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>3 359 181 03</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended March 31, 2007

	<u>General</u>	<u>Library</u>	<u>Other Funds</u>	<u>Total</u>
Revenues:				
Property taxes	57 117 60	68 810 57	28 162 55	154 090 72
Licenses and permits	-	-	12 031 40	12 031 40
State revenue sharing	79 130 39	4 203 98	-	83 334 37
Penal fines	-	56 788 00	-	56 788 00
Charges for services:				
Landfill	578 397 02	-	-	578 397 02
Fire	38 000 00	-	-	38 000 00
Property tax administration	18 567 26	-	-	18 567 26
Other	22 783 66	-	6 000 00	28 783 66
Interest	100 167 68	488 91	238 58	100 895 17
Miscellaneous	12 977 12	13 903 37	-	26 880 49
Total revenues	<u>907 140 73</u>	<u>144 194 83</u>	<u>46 432 53</u>	<u>1 097 768 09</u>
Expenditures:				
Legislative:				
Township Board	13 224 59	-	-	13 224 59
General government:				
Supervisor	27 462 00	-	-	27 462 00
Elections	5 683 70	-	-	5 683 70
Assessor	2 288 43	-	-	2 288 43
Attorney	25 582 41	-	-	25 582 41
Clerk	18 617 09	-	-	18 617 09
Treasurer	15 227 63	-	-	15 227 63
Building and grounds	8 594 28	-	-	8 594 28
Cemetery	35 074 46	-	-	35 074 46
Unallocated	3 925 00	-	-	3 925 00
Public safety:				
Fire protection	63 567 68	-	-	63 567 68
Police protection	47 501 32	-	-	47 501 32
Planning and zoning	12 716 19	-	-	12 716 19
Protective inspection	-	-	11 465 70	11 465 70
Ambulance	66 000 00	-	-	66 000 00
Public works:				
Highways and streets	-	-	21 854 38	21 854 38
Industrial park	2 000 00	-	-	2 000 00
Culture and recreation:				
Library	-	130 368 16	-	130 368 16
Other:				
Insurance	27 645 00	-	-	27 645 00
Payroll taxes	9 107 07	-	-	9 107 07
Capital outlay	174 724 10	-	-	174 724 10
Total expenditures	<u>558 940 95</u>	<u>130 368 16</u>	<u>33 320 08</u>	<u>722 629 19</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended March 31, 2007

	<u>General</u>	<u>Library</u>	<u>Other Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over expenditures	<u>348 199 78</u>	<u>13 826 67</u>	<u>13 112 45</u>	<u>375 138 90</u>
Other financing sources (uses):				
Operating transfers in	35 903 88	-	-	35 903 88
Operating transfers out	<u>-</u>	<u>(35 903 88)</u>	<u>-</u>	<u>(35 903 88)</u>
Total other financing sources (uses)	<u>35 903 88</u>	<u>(35 903 88)</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	384 103 66	(22 077 21)	13 112 45	375 138 90
Fund balances, April 1	<u>2 291 153 03</u>	<u>44 761 30</u>	<u>36 828 17</u>	<u>2 372 742 50</u>
Fund Balances, March 31	<u><u>2 675 256 69</u></u>	<u><u>22 684 09</u></u>	<u><u>49 940 62</u></u>	<u><u>2 747 881 40</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended March 31, 2007

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	375 138 90
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(35 491 10)
Capital Outlay	<u>174 724 10</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>514 371 90</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Three Oaks, Berrien County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Three Oaks. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Funds

The Current Tax Collection and the Agency Funds are used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2006 tax roll millage rate was 2.0700 mills, and the taxable value was \$77,366,001.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$25.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	25 years
Furniture and equipment	3-10 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 2 – Budgets and Budgetary Accounting (continued)

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated eight banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>2 643 724 16</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	805 344 45
Uninsured and Uncollateralized	<u>1 949 673 85</u>
Total Deposits	<u>2 755 018 30</u>

The Township of Three Oaks did not have any investments as of March 31, 2007.

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	Balance 4/1/06	Additions	Deletions	Balance 3/31/07
<u>Governmental Activities:</u>				
Land	232 650 00	-	-	232 650 00
Buildings	316 542 50	-	-	316 542 50
Equipment	710 130 39	174 724 10	(10 000 00)	874 854 49
 Total	 1 259 322 89	 174 724 10	 (10 000 00)	 1 424 046 99
Accumulated Depreciation	(787 256 26)	(35 491 10)	10 000 00	(812 747 36)
Net Capital Assets	<u>472 066 63</u>	<u>139 233 00</u>	<u>-</u>	<u>611 299 63</u>

Note 5 – Pension Plan

The Township does not have a pension plan.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

As of March 31, 2007, the Township had building permit revenues of \$12,031.40 and building permit expenses of \$11,465.70.

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	149 97	Building	149 97
General	1 511 25	Library	1 511 25
General	11 192 45	Current Tax Collection	11 192 45
General	21 854 38	Roads and Bridges	21 854 38
Total	<u>34 708 05</u>	Total	<u>34 708 05</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 10 – Operating Transfers

The amounts of interfund transfers are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	<u>35 903 88</u>	Library	<u>35 903 88</u>
Total	<u>35 903 88</u>	Total	<u>35 903 88</u>

Note 11 – Budget Variances

During the fiscal year ended March 31, 2007, Township expenditures exceeded the budgeted amounts in the activities as follows:

	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Excess Expenditures</u>
General Fund Activity:			
Elections	5 100 00	5 683 70	583 70
Assessor	-	2 288 43	2 288 43
Attorney	25 000 00	25 582 41	582 41
Industrial park	500 00	2 000 00	1 500 00
Insurance	20 000 00	27 645 00	7 645 00
Capital outlay	36 000 00	174 724 10	138 724 10
Clerk	16 130 00	18 617 09	2 487 09

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	53 300 00	53 300 00	57 117 60	3 817 60
State revenue sharing	73 850 00	73 850 00	79 130 39	5 280 39
Charges for services:				
Landfill	600 000 00	600 000 00	578 397 23	(21 602 98)
Fire	35 000 00	35 000 00	38 000 00	3 000 00
Property tax administration	18 200 00	18 200 00	18 567 26	367 26
Other	-	-	22 783 66	22 783 66
Interest	50 000 00	50 000 00	100 167 68	50 167 68
Miscellaneous	56 323 00	56 323 00	12 977 12	(43 345 88)
Total revenues	<u>886 673 00</u>	<u>886 673 00</u>	<u>907 140 73</u>	<u>20 467 73</u>
Expenditures:				
Legislative:				
Township Board	13 800 00	13 800 00	13 224 59	(575 41)
General government:				
Supervisor	30 000 00	30 000 00	27 462 00	(2 538 00)
Elections	5 100 00	5 100 00	5 683 70	583 70
Accounting	3 600 00	3 600 00	-	(3 600 00)
Assessor	-	-	2 288 43	2 288 43
Attorney	25 000 00	25 000 00	25 582 41	582 41
Clerk	16 130 00	16 130 00	18 617 09	2 487 09
Board of Review	1 500 00	1 500 00	-	(1 500 00)
Treasurer	22 000 00	22 000 00	15 227 63	(6 772 37)
Building and grounds	10 000 00	10 000 00	8 594 28	(1 405 72)
Cemetery	45 394 00	45 394 00	35 074 46	(10 319 54)
Unallocated	7 500 00	7 500 00	3 925 00	(3 575 00)
Public safety:				
Fire protection	113 350 00	113 350 00	63 567 68	(49 782 32)
Police protection	51 818 00	51 818 00	47 501 32	(4 316 68)
Planning and zoning	20 000 00	20 000 00	12 716 19	(7 283 81)
Ambulance	66 000 00	66 000 00	66 000 00	-
Public works:				
Sewer	15 000 00	15 000 00	-	(15 000 00)
Industrial park	500 00	500 00	2 000 00	1 500 00
Culture and recreation:				
Parks	5 000 00	5 000 00	-	(5 000 00)
Other:				
Insurance	20 000 00	20 000 00	27 645 00	7 645 00
Payroll taxes	10 000 00	10 000 00	9 107 07	(892 93)
Capital outlay	36 000 00	36 000 00	174 724 10	138 724 10
Total expenditures	<u>517 692 00</u>	<u>517 692 00</u>	<u>558 940 95</u>	<u>41 248 95</u>
Excess of revenues over expenditures	<u>368 981 00</u>	<u>368 981 00</u>	<u>348 199 78</u>	<u>(20 781 22)</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Other financing sources (uses):				
Operating transfers in	-	-	35 903 88	35 903 88
Total other financing sources (uses)	-	-	35 903 88	35 903 88
Excess of revenues and other sources over expenditures and other uses	368 981 00	368 981 00	384 103 66	15 122 66
Fund balance, April 1	-	-	2 291 153 03	2 291 153 03
Fund Balance, March 31	<u>368 981 00</u>	<u>368 981 00</u>	<u>2 675 256 69</u>	<u>2 306 275 69</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

BUDGETARY COMPARISON SCHEDULE – LIBRARY FUND
Year ended March 31, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	70 000 00	70 000 00	68 810 57	(1 189 43)
State revenue sharing	7 000 00	7 000 00	4 203 98	(2 796 02)
Penal fines	57 000 00	57 000 00	56 788 00	(212 00)
Interest	4 000 00	4 000 00	488 91	(3 511 09)
Miscellaneous	6 250 00	6 250 00	13 903 37	7 653 37
Total revenues	<u>144 250 00</u>	<u>144 250 00</u>	<u>144 194 83</u>	<u>(55 17)</u>
Expenditures:				
Culture and recreation:				
Library	<u>144 250 00</u>	<u>144 250 00</u>	<u>130 368 16</u>	<u>(13 881 84)</u>
Total expenditures	<u>144 250 00</u>	<u>144 250 00</u>	<u>130 368 16</u>	<u>(13 881 84)</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>13 826 67</u>	<u>13 826 67</u>
Other financing sources (uses):				
Operating transfers out	<u>-</u>	<u>-</u>	<u>(35 903 88)</u>	<u>(35 903 88)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(35 903 88)</u>	<u>(35 903 88)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>-</u>	<u>-</u>	<u>(22 077 21)</u>	<u>(22 077 21)</u>
Fund balance, April 1	<u>-</u>	<u>-</u>	<u>44 761 30</u>	<u>44 761 30</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>22 684 09</u>	<u>22 684 09</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2007

Township Board:	
Wages	4 200 00
Supplies	5 763 40
Miscellaneous	<u>3 261 19</u>
	<u>13 224 59</u>
Supervisor:	
Salary	<u>27 462 00</u>
Elections:	
Wages	2 545 25
Supplies	2 809 78
Miscellaneous	<u>328 67</u>
	<u>5 683 70</u>
Assessor:	
Supplies	<u>2 288 43</u>
Attorney	<u>25 582 41</u>
Clerk:	
Salary	14 580 00
Supplies	3 286 79
Travel	<u>750 30</u>
	<u>18 617 09</u>
Treasurer:	
Salary	13 080 00
Supplies	1 806 58
Travel	<u>341 05</u>
	<u>15 227 63</u>
Building and grounds:	
Wages	600 00
Repairs and maintenance	3 169 84
Utilities	4 762 90
Miscellaneous	<u>61 54</u>
	<u>8 594 28</u>
Cemetery:	
Wages	20 748 72
Supplies	1 611 91
Utilities	941 83
Contracted services	<u>11 772 00</u>
	<u>35 074 46</u>
Unallocated	<u>3 925 00</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2007

Fire protection:	
Wages	36 997 88
Insurance	2 218 00
Utilities	7 613 22
Supplies	9 469 70
Repairs and maintenance	5 115 88
Miscellaneous	<u>2 153 00</u>
	<u>63 567 68</u>
 Police protection:	
Contracted services	<u>47 501 32</u>
 Planning and zoning:	
Meetings	4 210 00
Miscellaneous	<u>8 506 19</u>
	<u>12 716 19</u>
 Ambulance:	
Contracted services	<u>66 000 00</u>
 Industrial park	<u>2 000 00</u>
 Insurance	<u>27 645 00</u>
 Payroll taxes	<u>9 107 07</u>
 Capital outlay	<u>174 724 10</u>
 Total Expenditures	<u><u>558 940 95</u></u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
March 31, 2007

	<u>Roads and Bridges</u>	<u>Building</u>	<u>Library</u>	<u>Water and Sewer</u>	<u>Total</u>
<u>Assets</u>					
Cash in bank	59 911 59	3 566 72	18 208 22	6 016 29	87 702 82
Taxes receivable	2 450 37	-	5 987 12	-	8 437 49
Internal balances	<u>(21 854 38)</u>	<u>(149 97)</u>	<u>(1 511 25)</u>	<u>-</u>	<u>(23 515 60)</u>
Total Assets	<u>40 507 58</u>	<u>3 416 75</u>	<u>22 684 09</u>	<u>6 016 29</u>	<u>72 624 71</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Unreserved:					
Undesignated	<u>40 507 58</u>	<u>3 416 75</u>	<u>22 684 09</u>	<u>6 016 29</u>	<u>72 624 71</u>
Total fund balances	<u>40 507 58</u>	<u>3 416 75</u>	<u>22 684 09</u>	<u>6 016 29</u>	<u>72 624 71</u>
Total Liabilities and Fund Balances	<u>40 507 58</u>	<u>3 416 75</u>	<u>22 684 09</u>	<u>6 016 29</u>	<u>72 624 71</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS
Year ended March 31, 2007

	<u>Roads and Bridges</u>	<u>Building</u>	<u>Library</u>	<u>Water and Sewer</u>	<u>Total</u>
Revenues:					
Property taxes	28 162 55	-	68 810 57	-	96 973 12
Licenses and permits	-	12 031 40	-	-	12 031 40
State revenue sharing	-	-	4 203 98	-	4 203 98
Charges for services	-	-	-	6 000 00	6 000 00
Penal fines	-	-	56 788 00	-	56 788 00
Interest	201 88	20 41	488 91	16 29	727 49
Miscellaneous	-	-	13 903 37	-	13 903 37
Total revenues	<u>28 364 43</u>	<u>12 051 81</u>	<u>144 194 83</u>	<u>6 016 29</u>	<u>190 627 36</u>
Expenditures:					
Public safety:					
Protective inspection	-	11 465 70	-	-	11 465 70
Public works:					
Highways and streets	21 854 38	-	-	-	21 854 38
Recreation and culture:					
Library	-	-	130 368 16	-	130 368 16
Total expenditures	<u>21 854 38</u>	<u>11 465 70</u>	<u>130 368 16</u>	<u>-</u>	<u>163 688 24</u>
Excess (deficiency) of revenues over expenditures	<u>6 510 05</u>	<u>586 11</u>	<u>13 826 67</u>	<u>6 016 29</u>	<u>26 939 12</u>
Other financing sources (uses):					
Operating transfers out	-	-	(35 903 88)	-	(35 903 88)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(35 903 88)</u>	<u>-</u>	<u>(35 903 88)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	6 510 05	586 11	(22 077 21)	6 016 29	(8 964 76)
Fund balances, April 1	<u>33 997 53</u>	<u>2 830 64</u>	<u>44 761 30</u>	<u>-</u>	<u>81 859 47</u>
Fund Balances, March 31	<u>40 507 58</u>	<u>3 416 75</u>	<u>22 684 09</u>	<u>6 016 29</u>	<u>72 624 71</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES – ALL AGENCY FUNDS
Year ended March 31, 2007

	<u>Balance</u> <u>4/1/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/07</u>
<u>CURRENT TAX COLLECTION FUND</u>				
<u>Assets</u>				
Cash in Bank	<u>94 111 79</u>	<u>1 766 521 09</u>	<u>1 849 440 43</u>	<u>11 192 45</u>
<u>Liabilities</u>				
Due to other funds	13 884 94	161 022 41	163 714 90	11 192 45
Due to others	<u>80 226 85</u>	<u>1 605 498 68</u>	<u>1 685 725 53</u>	<u>-</u>
Total Liabilities	<u>94 111 79</u>	<u>1 766 521 09</u>	<u>1 849 440 43</u>	<u>11 192 45</u>
<u>AGENCY FUND</u>				
<u>Assets</u>				
Cash in Bank	<u>999 00</u>	<u>145 00</u>	<u>1 144 00</u>	<u>-</u>
<u>Liabilities</u>				
Due to other funds	166 50	14 00	180 50	-
Due to others	<u>832 50</u>	<u>131 00</u>	<u>963 50</u>	<u>-</u>
Total Liabilities	<u>999 00</u>	<u>145 00</u>	<u>1 144 00</u>	<u>-</u>
<u>TOTALS – ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash in Bank	<u>95 110 79</u>	<u>1 766 666 09</u>	<u>1 850 584 43</u>	<u>11 192 45</u>
<u>Liabilities</u>				
Due to other funds	14 051 44	161 036 41	163 895 40	11 192 45
Due to others	<u>81 059 35</u>	<u>1 605 629 68</u>	<u>1 686 689 03</u>	<u>-</u>
Total Liabilities	<u>95 110 79</u>	<u>1 766 666 09</u>	<u>1 850 584 73</u>	<u>11 192 45</u>

TOWNSHIP OF THREE OAKS
Berrien County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended March 31, 2007

Cash in bank – beginning of year	<u>94 111 79</u>
Cash receipts:	
Property tax	1 747 752 37
Property tax administration fees	18 567 26
Interest	<u>201 46</u>
Total cash receipts	<u>1 766 521 09</u>
Total beginning balance and cash receipts	<u>1 860 632 88</u>
Cash disbursements:	
Township General Fund	74 152 10
Township Library Fund	62 816 36
Township Roads and Bridges Fund	26 746 44
Berrien County	832 347 12
Berrien County ISD	169 072 69
Village of Three Oaks	178 270 60
River Valley Schools	382 113 84
Lake Michigan College	122 215 29
Refunds	<u>1 705 99</u>
Total cash disbursements	<u>1 849 440 43</u>
Cash in Bank – End of Year	<u><u>11 192 45</u></u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

May 16, 2007

To the Township Board
Township of Three Oaks
Berrien County, Michigan

We have audited the financial statements of the Township of Three Oaks for the year ended March 31, 2007. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Three Oaks in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Three Oaks
Berrien County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2007.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,


CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants